Loungers plc

Results for the 24 weeks ended 4 October 2020

LOUNGE

COSY CLUB

DECEMBER 2020

Strategy and Operations Review

Nick Collins – CEO

Alex Reilley – Executive Chairman

Highlights

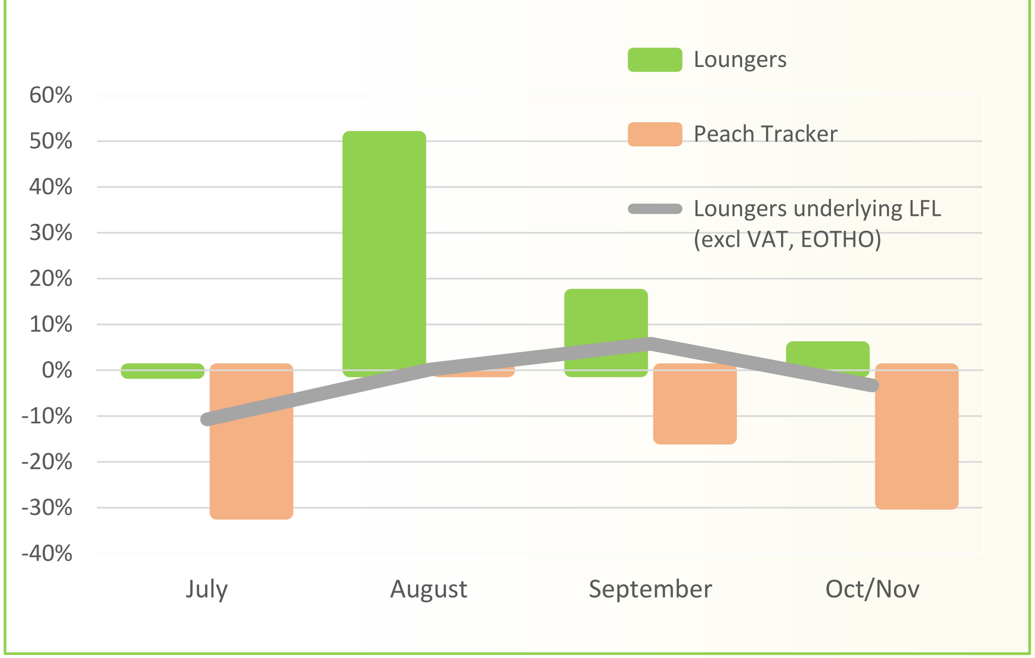
- Resilient financial performance in H1, despite Covid
- Used lockdown well to emerge a stronger business
- Market leading LFL sales performance reflects the relevance of our brands and operational strength
- There is undoubted customer demand when we are able to open our doors
- Strong EBITDA conversion as a result of evolution within the business and Government initiatives
- Balance sheet strengthened following April's equity placing and additional bank facilities
- Opened three new sites – Lounges in Hull and Sittingbourne and a Cosy Club in Brindleyplace, Birmingham.

	H1 FY21 £000	H1 FY20 £000	Var %
Sales	53,493	79,827	(33.0)%
LFL Sales (%)	+25.1%	+5.4%	
Adjusted EBITDA IFRS 16	13,205	14,475	(8.8)%
Net debt (non-property)	13,554	29,340	(53.8)%
No. of sites	167	156	7.1%

Market-leading sales performance demonstrates how Loungers is well-placed

- Predominantly suburban and market town locations are benefitting from behavioural changes as a result of Covid
- Sales growth despite the Covid restrictions reflect
  - Staying local
  - Working from home
  - Staycationing
- Increased average spend and quicker table turns as a result of our order at table app
- Growth in sales in shoulder periods due to extended meal times

Monthly LFL performance vs Peach Sector benchmarks



Impact of the new tiering system and restrictions

- On Wednesday 2 December we reopen 94 sites in England, alongside 14 sites already trading in Wales
- Anticipate more severe sales decline in the short-term
- Not especially reliant on Christmas (4 weeks represent 9.6% of annual sales)
- Impact will be felt more strongly in Cosy Club
- We can react quickly to changes in tiers and we will take whatever we can over the coming months
- Welsh sites temporarily restricted to 6pm close and no alcohol from 4 December, next review 17 December
- Eagerly await Government revision of the Tier system on 18 December
- As the vaccines are rolled out we expect a rapid return to sales growth

	Sites
Tier 1	3
Tier 2	91
Tier 3	60
Wales	14
Total	**168**

Order at table app and smaller menus

Web-based order at table app

- 40% use in Lounge pre requirement to order at table, thereafter, increased to 70%
- Increase in average spend due to ease-of-use, cocktails / second drinks / puddings
- Orders being made quicker, leading to faster table turns and potential labour savings
- Provides access to excellent feedback data
- Has not detracted from hospitality – it is important we get the balance right

Reducing the number of dishes on our menu

- Lounge reduced by 20% and Cosy Club reduced by 21%
- Ticket times reduced in excess of 10% helping turn tables faster
- Reduced SKU's and BOH complexity resulting in more consistent margins
- BOH team morale higher due to ease of delivery
- Critical we stay relevant and evolve alongside benefitting from simplicity

Culture and management team

- Eve Bugler's appointment as COO strengthens the senior team as we look forward to becoming a 300 site business
  - More time will be devoted to the evolution of the "central" departments within the business
  - Allows Nick Collins more time to focus on broader strategic objectives and driving improvement and growth in both brands
- We communicated well with our team during lockdown, prioritising their incomes and well-being and this has enhanced the culture within the business
- Share incentives awarded in respect of FY20 have enhanced the sense of ownership within the business, we now have
  - 714 shareholders within the All Employee Share Plan
  - 85 shareholders within the Management Share Plan

Re-starting the roll-out

- Three sites opened to date this financial year, a further five sites to come
- Very keen to get back to a rate of 25 sites per year, balancing caution alongside opportunity
- In our 20 year history the property market has never been better for opportunities to open higher revenue and EBITDA sites
  - CVA Hospitality opportunities
  - CVA Retail opportunities
  - Significantly less competition
- The pipeline is already very strong
  - 13 Sites are exchanged
  - 12 Sites are at HOT's
  - 19 Sites are in negotiations
  - 21 Sites are under consideration

Examples of pipeline sites

Key trends

- Coastal locations, additional benefit of staycationing
- Not necessarily cheaper sites, but higher revenue / EBITDA prospects
- Competitive tension in the pipeline
- Supply coming out of the market

Financial Review

Gregor Grant - CFO

Results summary

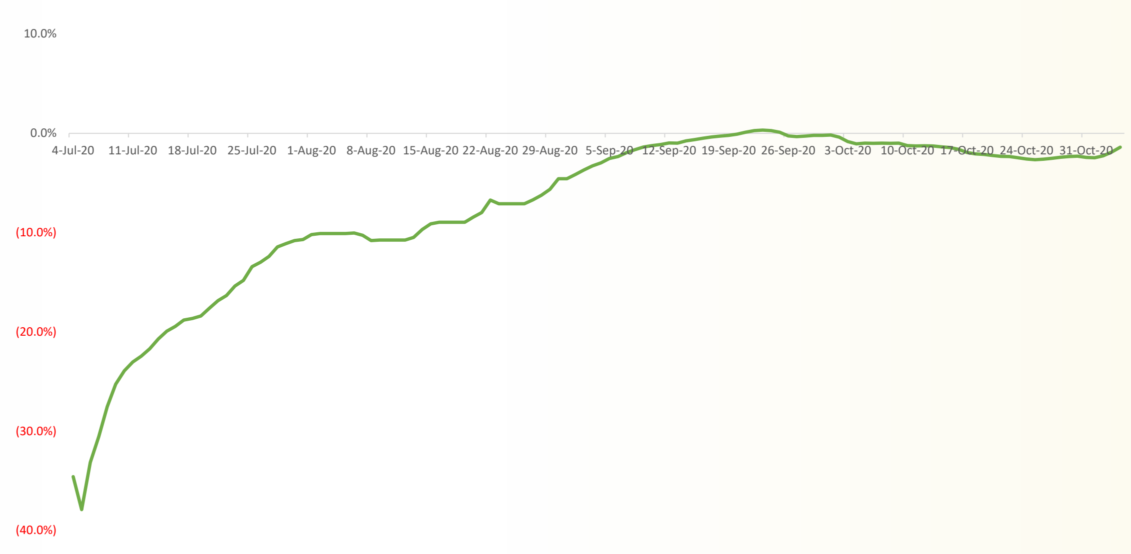
	H1FY21 £000	H1FY20 £000	Var
Revenue	53,493	79,827	(33.0%)
Gross profit	24,645	33,165	
	46.1%	41.5%	450bps
Adjusted EBITDA IFRS 16	13,205	14,475	(8.8%)
	24.7%	18.1%	660bps
Adjusted EBITDA IAS 17	8,734	10,222	(14.6%)
	16.3%	12.8%	350bps
Profit / (loss) before tax	117	(2,494)	

- Revenue of £53.5m down 33.0%
  - 11 weeks of lockdown offset in part by +25.1% LFL sales
- IFRS 16 Adjusted EBITDA of £13.2m
  - EBITDA margin ahead by 660bps
  - Impact of Government initiatives
- IAS 17 Adjusted EBITDA of £8.7m
  - EBITDA margin ahead by 350bps
  - Impact of fixed rent costs restricts margin expansion

Trading post re-opening

- Net LFL sales growth between 4 July and 4 October of 25.1%
  - Includes all LFL sites from the day of re-opening
  - Reflects positive impact of EOTHO and VAT reduction
- Underlying LFL sales from 4 July to 4 October -1.1%
- Marginal reduction in underlying LFL to -1.3% over 4 July to 4 November (second lockdown)
  - Impact of introduction of 10pm curfew, Tiers, and regional lockdowns in Wales
  - Largely offset by strong performance in Tier 1 and strong half-term week performance

Moving average Underlying LFL Since Re-Opening ex EOTHO Days



LFL Sales	
Underlying LFL Sales	(1.1%)
EOTHO Impact	13.6%
VAT Reduction Impact	12.6%
Reported net LFL Sales	25.1%

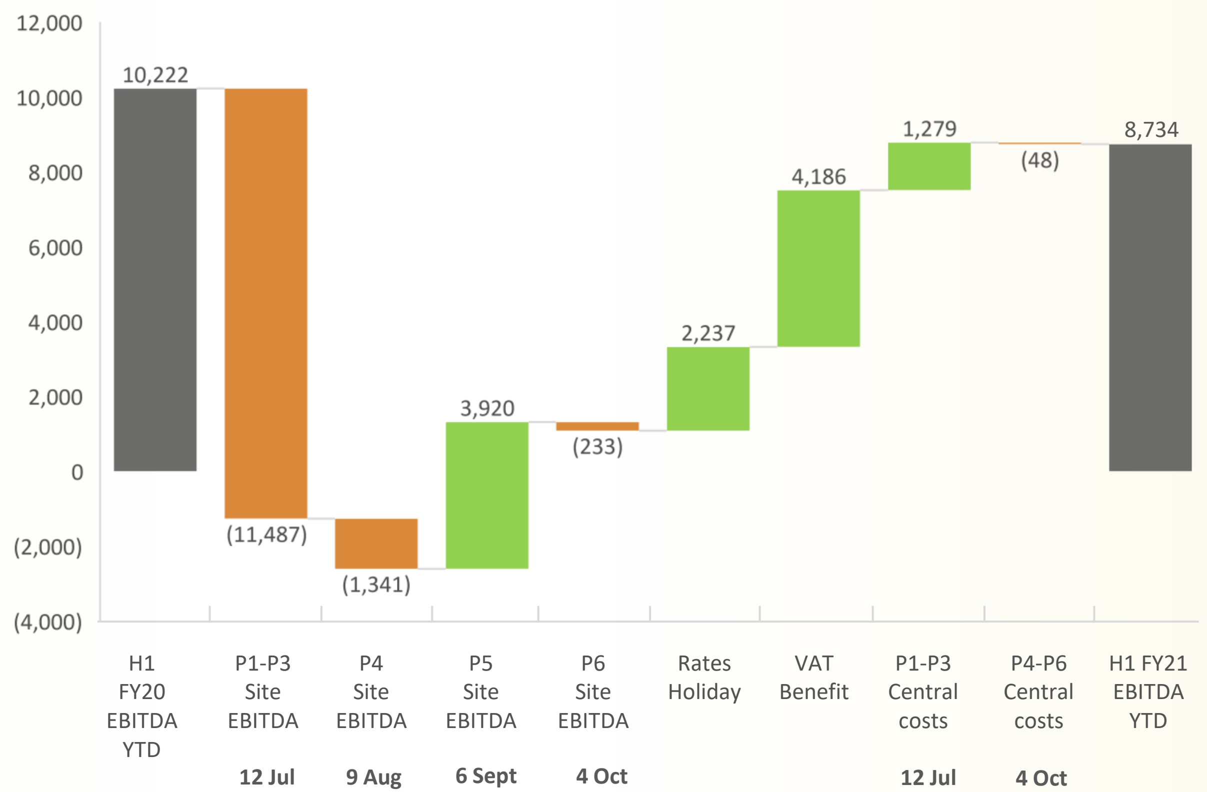
LOUNGE

COSY CLUB

Adjusted EBITDA (IAS 17)

- Year on year adjusted EBITDA decline of £1.5m
  - £11.5m decline at site level over P1 to P3 – covers the 12 weeks to 12 July of which 11 weeks of lockdown to 4 July
  - Phased re-opening during P4 – covers 4 weeks to 9 August, final site (CC Leicester) reopened 7 August
  - Impact of Eat Out to Help Out in P5
  - P6 Site level EBITDA almost flat year on year before positive benefit of VAT and business rates holiday
  - Strong underlying performance boosted by business rates holiday (£2.2m) and VAT reduction (£4.2m)

H1 FY21 ADJUSTED EBITDA IAS 17 vs PY



Adjusted EBITDA margin (IAS 17)

H1 FY20 Adjusted EBITDA Margin IAS 17	**12.8%**
VAT Rate reduction benefit	7.1%
Cost of sales (inc. site labour)	(0.4%)
Site variable costs	(1.6%)
Site rent and service charge	(3.6%)
Site rates	2.8%
Central costs	(2.0%)
RLH Grant income	1.2%
H1 FY21 Adjusted EBITDA Margin IAS 17	**16.3%**

- IAS 17 Adjusted EBITDA up 350bps
- Retention of VAT reduction adds 710bps
  - Reduction from 20% to 5% on food and non-alcoholic drinks
- Site EBITDA margin down 280bps
  - Cost of sales down 40bps, negative Covid 19 impact on labour offset by CGS benefit
  - Labour costs include £0.7m re site training and cleaning pre-reopening
  - Site variable costs includes impact of costs incurred whilst closed, utilities and maintenance
  - Rent and service charge costs reflect costs incurred during closure period, includes £0.6m benefit from rent waivers
  - Rates benefit from the business rates holiday
- Central costs impact of 200bps
  - Driven by lockdown period
  - Offset by RLH grants adding 120bps

Cash flow IAS 17

	H1 FY21 £000	H1 FY20 £000
Adjusted EBITDA IAS 17	8,734	10,222
Pre-opening costs	(346)	(1,158)
Corporation tax	1,131	(624)
Changes in working capital	7,134	2,305
Cash generated from operations	**16,653**	**10,745**
Exceptionals	(622)	(1,521)
Cash generated post exceptionals	16,031	9,224
Capital expenditure	(1,644)	(12,700)
Interest paid	(603)	(620)
Issue of shares	8,079	57,794
Borrowings repaid	-	(57,038)
Cash inflow / (outflow)	**21,863**	**(3,340)**
Cash b/f	4,083	6,500
Cash c/f	**25,946**	**3,160**

- Cash generated from operations of £16.7m
- Working capital inflow of £7.1m
  - Includes £4.1m reduction in CJRS debtor
  - Strong supplier relationships
- Covid related exceptionals of £0.6m
- Capex reduced to £1.6m, includes:
  - £0.5m of new site capex
  - £0.3m spend on bespoke screens
  - £0.3m splash and dash
- Equity placing raised £8.1m net
- Closing cash of £25.9m
  - Gross of £7.0m drawn under the RCF

Net debt and liquidity

	H1 FY21 £000
Cash	25,946
RCF	(7,000)
Term Loan	(32,500)
Net debt at 4 Oct 2020	(13,554)
Deferred Covid-19 liabilities	(11,600)
Underlying net debt at 4 Oct 2020	(25,154)
Cash	25,946
Available RCF	18,000
Liquidity	43,946
Weeks liquidity	60

- Balance sheet strength maintained and enhanced
- Headline net debt at 4 October of £13.6m
- Adjusting for deferred Covid-19 liabilities £25.2m
  - Deferred liabilities include HMRC and rents
- Term loan £32.5m to April 2024
- Total RCF facility of £25m provides £43.9m liquidity
  - £25m RCF includes incremental £15m agreed in April
  - Incremental £15m RCF runs to Oct 2021
- Provides 60 weeks liquidity based upon:
  - £14.4m working capital unwind
  - Rent inclusive weekly cash burn of £0.48m
- £44.3m liquidity on 4 November, second lockdown

Looking ahead with confidence

Our brands have never been more relevant – the strategy we outlined at IPO has been overwhelmingly reinforced	Changes that have come about as a result of lockdown have fundamentally improved how we operate	The senior management team has performed well, demonstrated its strength in depth, and more recently been enhanced	We anticipate five further site openings this year and getting back to a rate of 25 openings per year in the next financial year	The potential scale of Lounge in particular has been enhanced and the pipeline is very strong due to the wealth of opportunities

Thank you